DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q2 2017

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DORSET COUNTY COUNCIL PENSION FUND

1. EXECUTIVE SUMMARY: Q2 2017

MARKET

The UK property market continues to produce healthy returns despite heightened uncertainty in the wider economy. The IPD Monthly Index recorded a nominal total return of 2.5% in Q2 2017. Industrial was the best performing sector once again with a total return of 4.6%. This compares to 1.9% and 1.8% for offices and retail respectively.

This divergence of performance reflects occupier market conditions. Supply side constraints are supporting growth in industrial rents, however a combination of economic uncertainty, rising inflation and slowing consumer spending are beginning to impact occupier sentiment in other sectors.

With UK property yields well below long run averages and occupiers showing greater caution we continue to advocate a risk off approach and a strong focus on income management to ensure the portfolios continue to produce a sustainable and robust income return.

PORTFOLIO

The portfolio is well positioned to weather market uncertainty with a long AWULT (9.3 yrs to break) and has good exposure to secure index-linked income streams. The portfolio's void rate increased to 4.5% over the quarter, but remains well below the market average (6.9%). There were no purchases or sales. Four properties staircased from the Derwent Shared Ownership portfolio during the quarter.

Since the end of the quarter, the purchase of £15.75 million of units in vehicle holding Park Plaza Waterloo was completed.

Figure 1 Lease Length

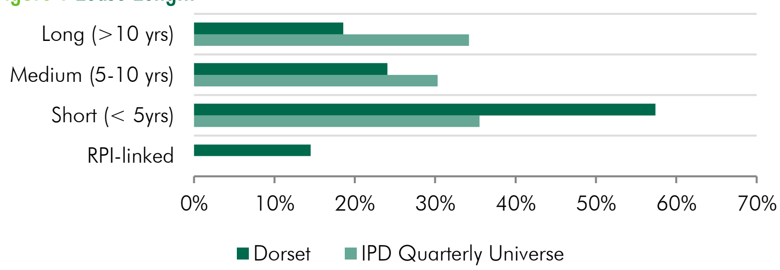


Figure 2 Geographical Structure

	London & SE	46%
	Eastern	16%
	South West	10%
	Midlands	7%
	North	13%
	Rest of UK	7%

Overview

The target is to achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

Portfolio

	Value*	Assets
UK Direct	£222.2m	25
UK Indirect	£24.2m	2
Total value of portfolio	£246.4m	

NIY/EY	5.0%	6.0%
Vacancy rate	4.5%	
AWULT to expiry (lease to break)	9.1yrs	(8.5yrs)
Largest asset	Woolborough Lane, Crawley (£21.0m/8.5% of portfolio value)	
Largest tenant	ACI Worldwide EMEA (£1,070,000/9.5% of portfolio rent)	

Performance

Target: To achieve a return on Assets at least equal to the average IPD Quarterly Universe.

	Portfolio	Target	Relative
Q2 2017 %	3.4	2.4	1.0
1 Yr %	5.5	4.6	0.8
3 Yr % p.a. (2015-2017)	11.1	10.1	0.9
5 Yr % p.a. (2013-2017)	11.3	10.3	0.9

Transcations

	Q2 2017
Money available	£15.0m
Purchases	£0.0m
Sales	£0.2m

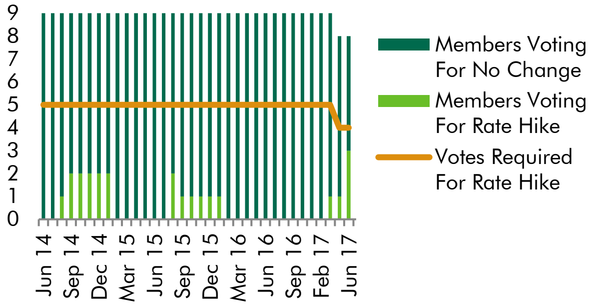
2. MARKET COMMENTARY

UK ECONOMIC OUTLOOK

As we enter the second half of the year and take stock of market conditions, two things are clear: the UK economy has held up much better than was feared in the immediate aftermath of last year's EU referendum, and this resilience is unlikely to be sustained. The UK has gone from being the best performing G7 economy in 2016 to the worst year to date and there are increasingly more signals that a slowdown is taking hold. Business sentiment surveys have weakened from multi-month highs, retail sales growth has moderated as inflation begins to bite and house prices and transaction activity has stagnated. We anticipate that during a period of heightened uncertainty, which ongoing Brexit negotiations and the new composition of Parliament foster, these forces will weigh on growth and hamper property performance.

Arguably, one of the biggest surprises during the past quarter was not the announcement of a snap General Election or even its result, but three members of the Bank of England's Monetary Policy Committee (MPC) voting for an interest rate hike (Figure 1). The split decision marks a change in the dovish tone: interest rates will not remain historically low forever. While markets are pricing a 50% probability of a rate hike by the end of the year, subsequent commentary from MPC members as well as the recent evolution of the economy suggest that this probability may be too high. Notwithstanding, we continue to believe that unforeseen increases to borrowing costs present one of the greatest threats to the economy.

Figure 1 Bank of England MPC Voting, number of members voting. Source: Bank of England



While uncertainly remains elevated for the broader market, it has arguably receded in Scotland. The loss of seats by the Scottish National Party in the General Election should assuage concerns of a second independence referendum, at least for the foreseeable future. Local commercial property performance and investment volumes have struggled to bounce back since the September 2014 vote. With the case for Union strengthened, investors may adopt a more positive stance toward the market. However, we see no compelling reason to become overly exposed as both political and economic obstacles remain. Improved liquidity could offer a window to dispose of assets that were previously unsaleable, while any new investments need to be high quality and demonstrate an additional risk premium over English equivalents.

UK PROPERTY PERFORMANCE

Though somewhat at odds with heightened economic uncertainty, the UK property market continues to generate healthy returns. At a market level, capital values rose for a third successive quarter in Q2 2017 with the main sectors measured by CBRE's Monthly Index delivering a positive result. The all property total return in Q2 2017 was 2.6%, which is effectively on par with the previous two quarters. As has been a reoccurring theme for the past year, industrials proved to be the most resilient sector, delivering a quarterly return of 4.0%. Offices and retail both underperformed the broader market delivering returns of 2.5% and 1.9%, respectively.

OCCUPIER MARKETS

Occupier markets have become noticeably more polarised. While rental growth has remained marginally positive at an all property level, more segments are beginning to show declines. Anecdotal evidence suggests that both economic and political uncertainty, rising inflation and the national living wage are influencing tenant decision making.

South East industrials, which are underpinned by a strong structural story and competing land uses, are the best performing property segment with the strongest medium term rental growth prospects. This is a key reason why pricing has become so keen. Retail faces considerable headwinds with ample supply, waning aggregate demand and a lack of new entrants. Insolvencies are likely to accelerate given the slowdown in consumer spending and the spectre of rising interest rates. Unfortunately, we do not anticipate that these threats to the sector will diminish any time soon.

Offices are gradually weakening from a healthy base. We are signing new leases in regional cities but terms are shortening. Tenant activity in Central London is patchy, with some lettings going through at strong rents, but other buildings, especially in fringe locations, having to moderate rental aspirations or offer greater incentives. From a cyclical standpoint, this segment of the market appears most vulnerable to rental declines.

The leisure sector, specifically restaurants, also looks susceptible in this regard given the prevalence of private equity ownership and recent expansion activity. With notably fewer requirements than a year ago, headline rents are coming under pressure. While clearly a nuanced occupational picture across the property market, we feel that the bargaining position is shifting from landlord to tenant. Hence, a strategic focus needs to be proactively managing income, lengthening leases and being sensible with rental expectations.

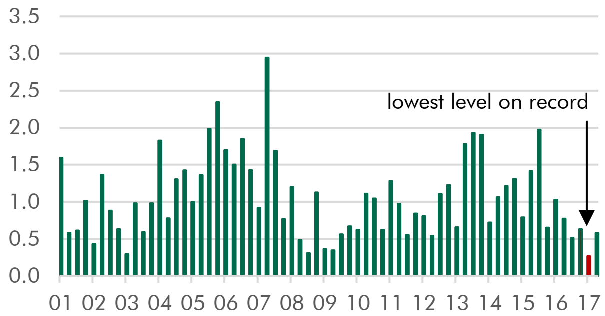
CAPITAL MARKETS

UK transaction volumes have remained remarkably flat since last year's EU referendum as many investors accept a higher degree of uncertainty, but have little pressure to invest. There are few motivated sellers and even fewer viable alternatives to redeploy capital. Round-trip costs further hinder asset churn. Whilst more assets will come to market after summer, given the weakening economic backdrop transactional velocity is likely to remain subdued by recent standards.

The majority of buying interest has been in sectors where investors feel most compelled, namely South East industrials, assets providing secure inflation-linked income and trophy assets. Demand for this type of stock far exceeds supply, which is having an obvious impact on pricing. Whilst this may be a deterrent to deploy capital, it could present opportunities to sell into such enthusiasm.

Continuing a recent trend, and in line with our house activity, UK institutions, have been net sellers of property. Domestic interest in the London office market, in particular, has fallen to a cyclical low, indicating a collective reluctance to invest in a vulnerable segment of the market (Figure 2). Local UK authorities, who have been able to borrow cheaply and aggressively acquire property often at historically strong prices, have come under public scrutiny. We suspect that this recently formidable force in the market will play less of a prominent role going forward. In a similar vein, retail property funds, burned by last year's post-referendum experience and fearful of regulatory change, are opting to remain on the side lines. Fortunately for market activity, overseas capital selectively sees value.

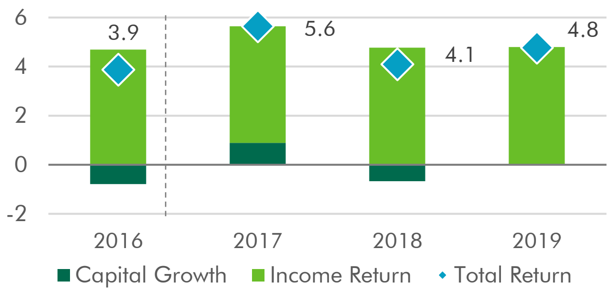
Figure 2 Domestic investment in Central London Offices, 12 month total, £bn. Source: RCA



OUTLOOK

For the past two years, we have been highlighting concerns about the advanced stages of the UK property market. In absolute terms, the asset class has become expensive as ultra-low interest rates have helped push yields well below long run averages. Last year's EU referendum result brought forward a correction that we were anticipating in the latter years of the forecast horizon. To date the impact has not been detrimental to performance, however the myriad risks we are all alert to raise concerns about the direction of the market.Our forecasts of 2017 property performance have improved marginally over the quarter, and we expect an outturn slightly stronger than last year with income complimenting modest capital value appreciation (Figure 3). Accepting an eventual increase in interest rates and below trend rental growth, we anticipate that the market will be able to generate a nominal total return of c. 5% p.a. over the coming three years. Although a fairly dull outturn relative to history, property's income advantage, in particular, and the prospect of relatively stable returns positions it favourably against other assets classes

Figure 3 All Property Total Return Components, 2017-19, % p.a. Source: CBRE Global Investors, Q2 2017



3. STRATEGY

Size	▪ Target portfolio size £260 million. Currently £246.4m.
Performance	▪ To achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.
Income yield	▪ Maintain the portfolio income yield at a higher level than the IPD index net initial yield. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure held properties / new acquisitions have strong rental growth prospects or a high income yield.

ALLOCATION

Property type	▪ Remain diversified while seeking to increase the average lot size and tenancy size via sales and purchases target core property holdings in good locations with a proportion of exposure to properties that will allow active management to generate outperformance. ▪ We anticipate maintaining a total of between 25 and 30 properties with an average lot size of c. £8m - £10m. ▪ Invest indirectly to gain exposure to sectors or lot sizes that the fund would be unable to achieve through direct investment e.g Shopping Centres.
Geographic allocation	▪ Diversified by location but with a bias towards London and the South East.
Sector allocation	▪ Diversified by sector with a maximum of 50% in any single sector. ▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other commercial. ▪ Source suitable HLV* investments that could be available in any sector.

*HLV stands for High Lease to Value Property. HLV Property generates long-term predictable cash-flows. It is characterised by long lease lengths (20+ years) often with a link to a reference rate (RPI).

OTHER RESTRICTIONS AND GUIDELINES

Investment size	▪ Target a maximum of 10% in any single asset
Tenants	▪ Maximum rent from any single tenant 10% of rental exposure. ▪ Target financial strength better than the benchmark.
Lease length portfolio	▪ Target new assets where the lease expiry profile fits with the existing profile of the fund. ▪ Seek to maintain expiries in any one year below 10% of the fund's lease income. ▪ Target an average unexpired lease term in excess of the benchmark.
Development	▪ Development may be undertaken where the major risks can be mitigated and the risk/reward profile is sufficient to justify it.
Debt	▪ Avoid debt exposure.
Environmental and Social Governance ("ESG")	▪ Energy performance: to improve EPC ratings where it is financially viable and, where applicable, apply for certification.

4. PORTFOLIO OVERVIEW

UK direct*	£222.2m	90.2%
UK indirect**	£24.2m	9.8%
Total value of portfolio	£246.4m	100%

*See **Appendix 3** for full property list and performance over the quarter by asset
See **Appendix 2 for more information on the indirect performance over the quarter.

RISK CONTROL MEASURES

	Fund (Direct property only)	Aim
Number of assets	25	25-30
Number of tenancies*	75 with a further 3 units void	70-100
Net initial yield	5.0% p.a.	Above benchmark
Vacancy rate (% of rent)	4.5%	Below benchmark
Rent with +10 years remaining	24.0% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	7.4% of total rent	Minimum 10% of total rent
Largest property (% of value)	9.5% (Woolborough Lane IE, Crawley)	Below 10%
Largest tenant (% of rent)	8.5% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	81% / 19%	Minimum 70% freeholds

PROPERTY / TENANT DIVERSIFICATION

AIM – Maintain a diversified tenant base with individual tenancies providing rent rolls in excess of £25,000 pa.

The portfolio is currently well diversified with a range of tenants and a well balanced rental income stream.

ACTION:
To maintain a diversified tenant mix.

NET INITIAL YIELD

AIM – Maintain a net initial yield above the benchmark.

The IPD Quarterly Universe net initial yield is 5.0% as at Q2 2017. The portfolio net initial yield as measured by IPD is currently 4.8%. The margin over the benchmark has increased marginally during the quarter. The portfolio yield has reduced in general over the last year due to stronger market conditions and the acquisition of a lower yielding property which delivers secure RPI linked income and the sale of a higher yielding retail warehouse. The transactions have added to the quality of the income stream from the portfolio.

ACTION

The portfolio's initial yield currently is 20 basis points above the Benchmark IPD Quarterly Universe. In order to improve the yield gap further our ongoing focus is to enhance the portfolio income, principally by:

1. letting vacant space;
2. pursuing lease renewals with existing tenants at the earliest opportunity;
3. settling rent reviews where there are outstanding reversions;
4. closely monitoring non recoverable expenditure.

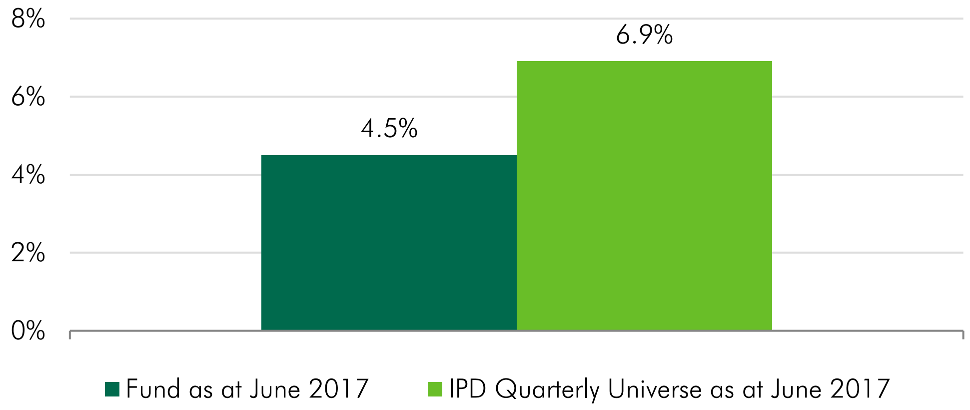
	Portfolio	IPD Quarterly Universe
Initial yield p.a.	5.0%	4.8%
Equivalent yield p.a.	6.0%	5.7%
Income return over quarter	1.2%	1.1%

VACANCY RATE

AIM – maintain a low void rate through letting vacant space and mitigating future expiry risks.

The vacancy rate currently amounts to 4.5% of ERV, less than half the amount in the benchmark (6.9%). The portfolio's void rate comprises an industrial unit at Phoenix Park (Unit 7), two office floors at Pilgrim House, Aberdeen and 131 Great Suffolk Street, London which became vacant during the quarter.

Figure 10 Vacancy Rate



ACTION

Seek to let vacant space through using best in class letting agents and proactively manging upcoming lease expiries (see Appendix 1 for the list of void properties).

LEASE LENGTH AND EXPIRY PROFILE

AIM – To maintain a well diversified lease expiry profile and keep the portfolio average lease length in excess of the benchmark lease length.

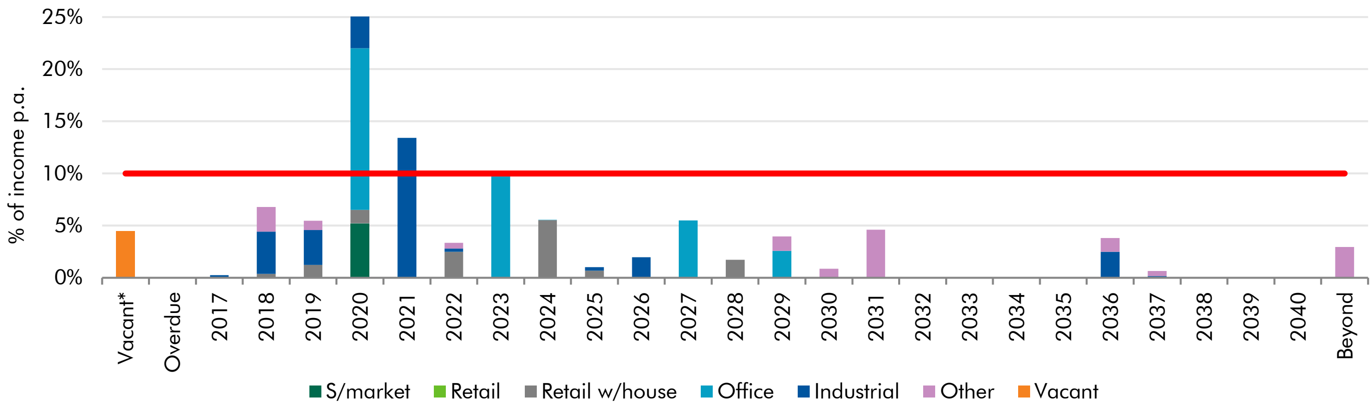
UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	9.3	8.7	9.3
Benchmark	12.0	11.1	12.5

*Breaks are assumed to be executed if the lease is overrented and the break is at the option of the tenant or mutual.

The average lease length of the Fund using the PAS assumption is in a reasonable position in comparison to the benchmark. The main risk is the 2020 expiry spike. The vast majority of these are already being discussed with tenants. Neogtiations are progressing with Tesco to agree a lease regear on their unit in Sheffield. Their lease currently expires in October 2020 but we are discussing options for a reversionary lease of either fifteen or twenty years. This represents 5.3% out of the 18.9% of income currently expiring in 2020.

Figure 11 Lease Expiry Profile



*Vacancy expressed as percentage of ERV

ACTION

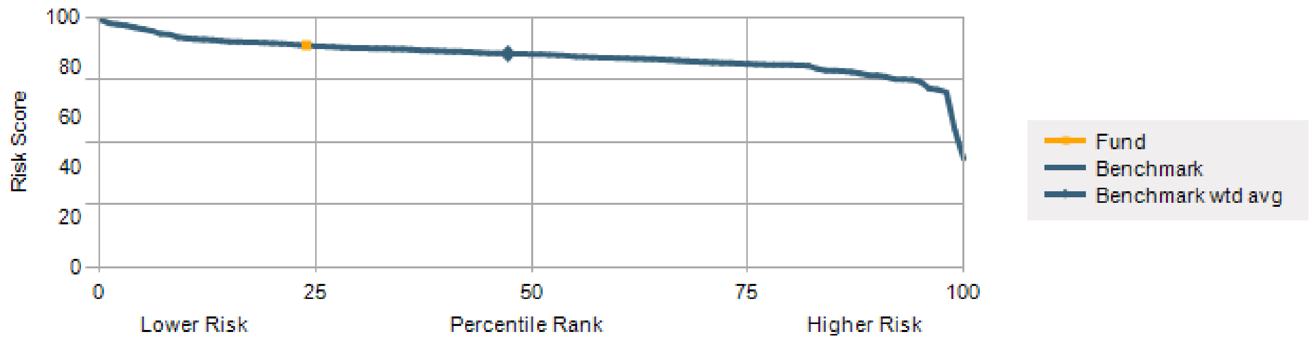
Seek to extend the average lease length through the active management of lease events in the portfolio. Aim to establish a "dumbbell" shaped expiry profile to allow short term asset management to be balanced by long term secure income.

TENANT FINANCIAL STRENGTH

AIM – maintain covenant strength better than the benchmark

The graph below compares the covenant risk score of the portfolio compared to the Benchmark as at 30 June 2017. The Fund is now in the top quartile with a Weighted Risk Score on the 24th percentile. The score has improved since Q1 2017 (34th percentile), and remains well ahead of the benchmark (47.2) demonstrating that the covenant risk of the portfolio is below the average benchmark risk. IPD IRIS risk weightings are as at June 2017

Figure 12 Ranking Of Weighted Risk Score



ACTION
Seek to improve the covenant risk profile of the portfolio through letting activity and ensuring tenants are properly classified by IPD.

INCOME AND LEASE TYPE

AIM – maintain the weighting to HLV* income in excess of 15% of total portfolio income.

Open market income – this is the standard rent review structure for UK direct property leases and makes up the majority of the portfolio income. It generally involves a five yearly open market rent review, which is upwards only.

***HLV income** – defined as properties let on leases with inflation-linked rent review structures and those which have defined uplifts (fixed increases) periodically. This type of income is effective in generating a consistent real return.

The portfolio is in line with this target. At 15% the HLV component of the income means a good proportion of the portfolio providing some form of index linkage. This will be increased further with the inclusion of the income from Park Plaza, Waterloo, the acquisition of which completed post quarter end.

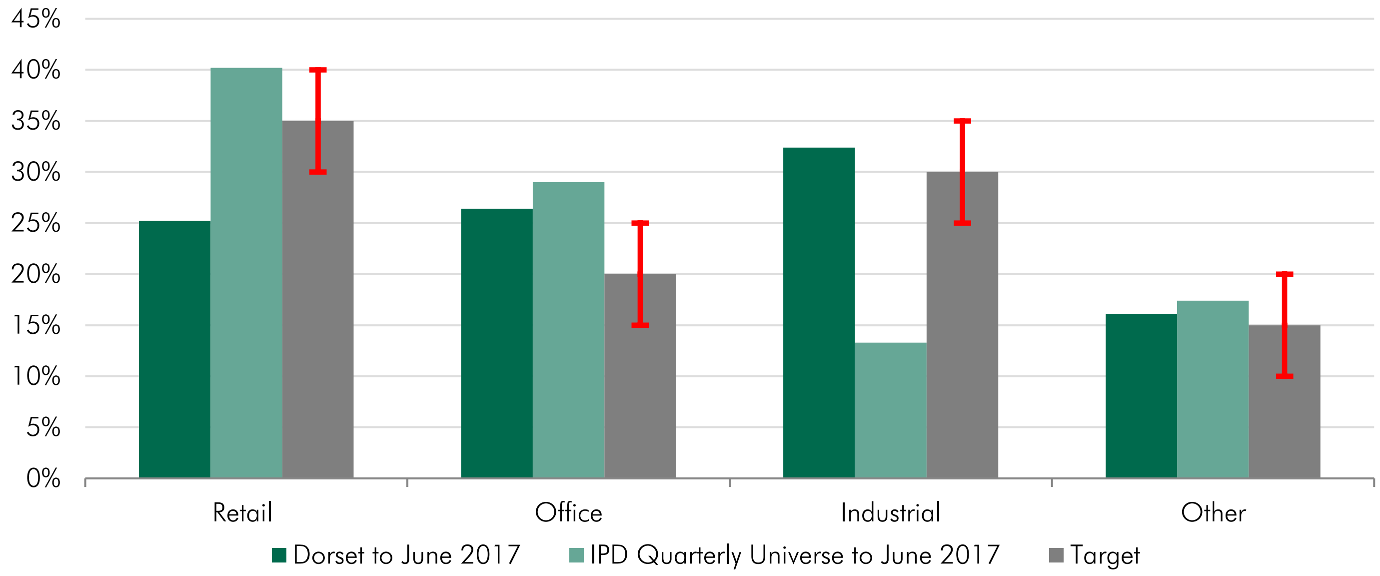
% of portfolio income	Q2 2017
Open market income	85%
RPI/Index linked income	15%

ACTION
Continue to monitor HLV ratio to Open Market income when considering purchases or sales.

SECTOR AND GEOGRAPHICAL STRUCTURE

AIM – to maintain a well diversified portfolio as part of our overall risk management strategy.

Figure 13 Portfolio Sector Weightings



The portfolio sector weightings are displayed above in comparison to the benchmark with a target range depicted in red in line with houseview recommendations. The portfolio sector split has continued to be beneficial with the low retail weighting and below benchmark weighting to offices, given that overall these two sectors have been the poorest performing sectors over the past 12 months. Over the longer term proceeds of sales from the office sector may be redistributed into retail, industrial or the other sector. The geographical split as shown on page 1 is well diversified at present. There is a large London and South East weighting which has particularly aided performance over the last year. There is also a large eastern weighting; Cambridge falls into this region albeit it has historically performed more like the South East market and therefore is therefore considered a positive risk when compared to the Index.

ACTION

Ensure that purchases and sales maintain the geographical and sector diversity within the portfolio having due regard to the current point in the economic cycle.

DEVELOPMENT

AIM – to maintain a development exposure below 10% of the value of the portfolio.

There is currently no speculative development ongoing within the portfolio. The development at Cambridge Science Park began during the quarter. During Q2 the build contract was signed and ground works for phase 1a (the decked car park) commenced on site. All pre-commencement planning conditions were also signed off by the local planning authority.

ACTION

Development may be undertaken where the major risks can be mitigated and the risk/reward profile is sufficient to justify it having due regard to local supply/demand dynamics and the point in the economic cycle.

5. UK DIRECT PORTFOLIO ACTIVITY

Below are examples of key drivers of performance within the Fund over the last quarter:

Address	South Bristol Trade Park, Bristol
Sector	Industrial
Valuation Q2 2017	£4.9m

- During the quarter, the rent review of the GSF Car Parts unit was settled at arbitration. The rent grew from £72,500 p.a. (£9.10 psf) to £74,870 p.a. (£9.40 psf). The award provided for a 12% discount for quantum due to the unit's relatively large size of 7.970 sq ft.
- Post quarter end, the rent review on the Toolstation unit has also been settled at £24,680 p.a. (£10.52 psf).
- The outstanding rent reviews from 2015 in respect of Hilti and UK Bathroom Village should now be settled with rental uplifts, taking into account the arbitration award and Toolstation review settlement.

Address	Cambridge Science Park, Cambridge
Sector	Office
Valuation Q2 2017	£12.2m

- Since our last report, the building contract with Kier was completed.
- Ground works for Phase 1A (the decked car park) have commenced.
- The pre-construction planning conditions have been met and signed off by the Local Authorities.
- Discussions are ongoing with Anglia Water in respect of the intersection of their wayleave with the corner of the proposed carpark. This issue is expected to be resolved in due course.
- A licence to use some of the adjoining occupier's car parking spaces is also in the process of being agreed.

6. TRANSACTIONS

There were no purchases in Q2 2017

SALES – STAIRCASINGS FROM THE DERWENT PORTFOLIO

Address	5 Leysfield Gardens, Chellaston, Derby, DE73 6PL
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed house
Completion Date	9th June 2017
Dorset's Purchase Price*	£39,999 (gross of all fees)
Net Dorset Sale Receipt*	£56,698

*The values reported are for the Fund's 50% share.

Address	7 Leysfield Gardens, Chellaston, Derby, DE73 6PL
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed house
Completion Date	26th April 2017
Dorset's Purchase Price*	£39,919 (gross of all fees)
Net Dorset Sale Receipt*	£58,982

*The values reported are for the Fund's 50% share.

Address	21 Comfrey Close, Littleover, Derby, DE23 3UF
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 3 bed house
Completion Date	8th May 2017
Dorset's Purchase Price*	£49,424 (gross of all fees)
Net Dorset Sale Receipt*	£71,013

*The values reported are for the Fund's 50% share.

Address	41 Alexandra Mill, Great Northern Road, Derby DE1 1LW
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed flat
Completion Date	21st June 2017
Dorset's Purchase Price*	£38,109 (gross of all fees)
Net Dorset Sale Receipt*	£41,632

*The values reported are for the Fund's 50% share.

TRANSACTION PLAN

The key objectives are as follows:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. The focus for 2017 is to ensure that the portfolio remains in a strong position to capture rental growth.
- The Manager is continuing to review the situation in respect of Charlotte House, Newcastle, following the forfeiture of the lease with the tenant, Charlotte House Limited. This has led to the building becoming a direct let student accommodation block which will take some investment and time to reposition within the market. Having unsuccessfully sought to dispose of the property during Q2 the Manager will now hold and stabilise the asset during the next student year in order to maximise the return from the investment.
- During Q2 2017 the manager sought to dispose of 131 Great Suffolk Street, London SE1, following the departure of the tenant in April. This asset was purchased as a relatively short term hold in 2014. The asset was marketed for offers in excess of £4.5m and placed under offer at £5.3m. However, post quarter end the sale fell through. The property is now back under offer at £4.905m to another purchaser. In the interim the property has suffered from squatters who have since been evicted to enable the sale to proceed. The Manager now has 24 hour security in place until the sale completes.
- Post quarter end the Fund invested £15.725m into the new vehicle set up to acquire Park Plaza, Waterloo. This purchase will increase the portfolio weighting to assets delivering an element of RPI linked income and will provide exposure to a different sector of the market within the "Other" category.
- In addition, the two indirect holdings will continue to be monitored and if an opportunity arises to reduce the Fund's holdings at a sensible price, this will be pursued. It is not however the intention of the Manager to fully divest. See Appendix 2 for further information about the indirect holdings.

TRANSACTIONS COMPLETED POST QUARTER END

PURCHASES

Address	Waterloo Park Plaza, London SE1
Sector	Hotel
Purchase price	£15.725m (contribution)
Conventional / HLV	High Lease Value

- Post quarter end CBRE Global Investors has completed the acquisition of the freehold of the recently developed Park Plaza hotel, in Waterloo, for a total consideration of £160m, equating to a net initial yield of 3.27% p.a.
- The transaction has been structured as a sale and leaseback with Park Plaza, for a lease term of 199 years, at a starting rent of £5.6m p.a.
- The purchase price equates to 65% of day one vacant possession value and the starting rent equates to 54% of the property's estimated rental value.
- The lease allows for annual rent reviews in line with the RPI (collared at 2% and capped at 4%).
- The investment is held by a Guernsey Property Unit Trust, whereby a number of CBRE Global Investors' clients have allocated capital.
- Income from the investment (and the associated costs of the vehicle) has been divided proportionately between the co-invested parties, based upon their initial capital allocation.
- Redemptions from the vehicle will be available after the first seven years, and five yearly thereafter. However, we expect that the parties invested in the vehicle at the outset will hold the investment for the long term.
- The deal completed in early July. We forecast that the investment will realise a real return of 3.0% p.a. over the long term.

7. UK DIRECT PERFORMANCE

PERFORMANCE OBJECTIVE

The target is to achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

Q2 2017	Portfolio	Benchmark	Relative
Capital growth	2.1%	1.3%	0.9%
Income return	1.2%	1.1%	0.1%
Total return	3.4%	2.4%	1.0%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio has outperformed the benchmark over the last three months, with a total return of 3.4% against the benchmark return of 2.4%. This was mainly driven by the outperfromance of the industrial assets. Pilgrim House, Aberdeen was again the worst performing asset in the portfolio contributing -0.5% to the overall total return driven by a fall in capital value of -15.5%, due to market conditions caused by continuing depressed oil prices. The income return from the portfolio was slightly better than the benchmark at 1.2%. With capital performance anticipated to slow again over the next 12 months the Fund's income return will remain a key driver of performance.

12 months to Q2 2017	Portfolio	Benchmark	Relative
Capital growth	1.6%	0.9%	0.7%
Income return	5.0%	4.7%	0.3%
Total return	6.8%	5.6%	1.1%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q2 2017	Portfolio	Benchmark	Relative
Capital growth	5.7%	5.1%	0.6%
Income return	5.2%	4.8%	0.4%
Total return	11.1%	10.1%	0.9%

Source: CBREGI and IPD Quarterly Benchmark Report

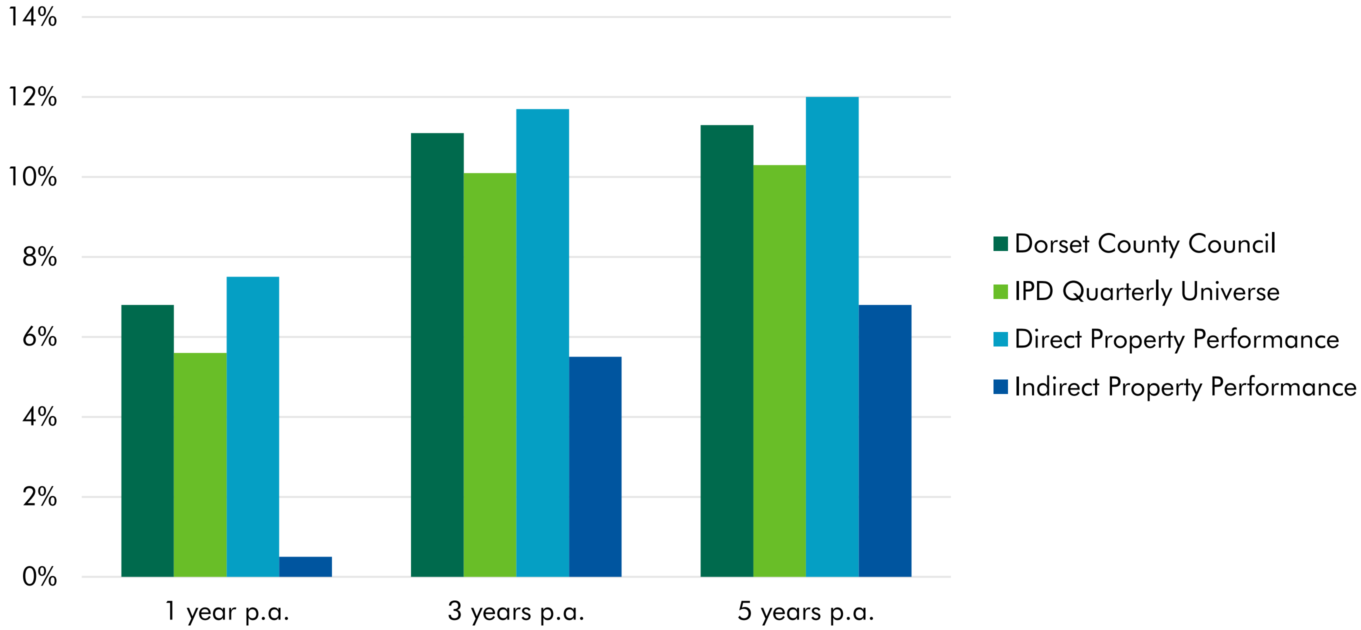
5 yrs to Q2 2017	Portfolio	Benchmark	Relative
Capital growth	5.4%	4.9%	0.4%
Income return	5.7%	5.1%	0.5%
Total return	11.3%	10.3%	0.9%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio continues to outperform the benchmark over 1, 3 and 5 year periods. This outperformance has been delivered both by the strong income return and capital growth over the longer time periods. The longer term performance is of particular note given the amount of acquisition activity over this time frame. The figures also demonstrate the advantage over the longer term of running a higher income strategy, provided the quality of the properties within the portfolio is maintained.

ROLLING PERFORMANCE FIGURES

Figure 14 Annualised Total Return Rolling Performance



The portfolio is outperforming over 1, 3 and 5 year rolling periods. This chart includes all benchmarked assets, therefore comprising all direct and indirectly held assets during each time horizon. The direct property performance has continued to outperform the benchmark over the rolling timeframes shown above. The indirect property performance has been weaker than the direct holdings across the timeframes shown. The indirect property holdings comprise Shopping Centre exposure; the assests in these vehicles are generally very prime and provide access to a market that we would not purchase directly for a Fund of this size given their scale. The portfolio's indirect holdings are considered to be defensive within the portfolio in the event of a weaker economic climate.

The Fund continues to achieve its key objective on the five year rolling performance measure.

8. ACCOUNTING AND ADMINISTRATION

RENT COLLECTION AND ARREARS

The three measures listed below; the arrears level, speed of rent collection and service charge account closure position, are designed to be "litmus" tests showing the health of the accounting and administration of the portfolio.

The targets are designed to be demanding, however, we would expect to hit GREEN a large proportion of the time.

ARREARS LEVEL (RENT, SERVICE CHARGE, INSURANCE OVER THREE MONTS OLD)

Target			
GREEN	Max. £25,000, no single item over £10,000		
AMBER	Max. £75,000		
RED	Above £75,000		
RESULT	30 June 2017	RED	£138,472.92
	31 March 2017	RED	£131,467.29
	31 December 2016	RED	£131,515.46
	30 September 2016	RED	£151,727.09
	The arrears position is skewed due to £134,408.78 of arrears at Charlotte House, Newcastle. The lease was forefeited during Q3 2016 through legal action. A liquidation notice has been submitted, in an attempt to recover further arrears. The Manager will continue to seek to secure the outstanding arrears at Newcastle. Excluding Charlotte House, Newcastle from the arrears the results are "green".		

SPEED OF RENT COLLECTION

Target			
GREEN	90% of collectable rent banked by 6th working day after the quarter day, 95% by 15th working day		
AMBER	80% by 6th working day, 90% by 15th		
RED	Worse than Amber		
RESULT	30 June 2017	GREEN	(95.5% collected by 6 days, 98.7% by 15th day)
	31 March 2017	GREEN	(99.3% collected by 6 days, 98.0% by 15th day)
	31 December 2016	AMBER	(85.1% collected in 6 days, 94.7% by 15th day)
	30 September 2016	GREEN	(97.7% collected in 6 days, 100% by 15th day)

SERVICE CHARGES – ACCOUNT CLOSURE POSITION

Target	
GREEN	all service charge accounts closed within 3 months of the year end
RED	any account not closed
RESULT	GREEN

9. SUSTAINABILITY

The ESG Risk Mitigation Programme has been designed to address the risk presented by the Energy Act 2011 which stipulates that from 2018, it will be prohibited to lease a building with poor energy performance.

Figure 15 Change in level of risk across all units (left) and value (right) within the Fund

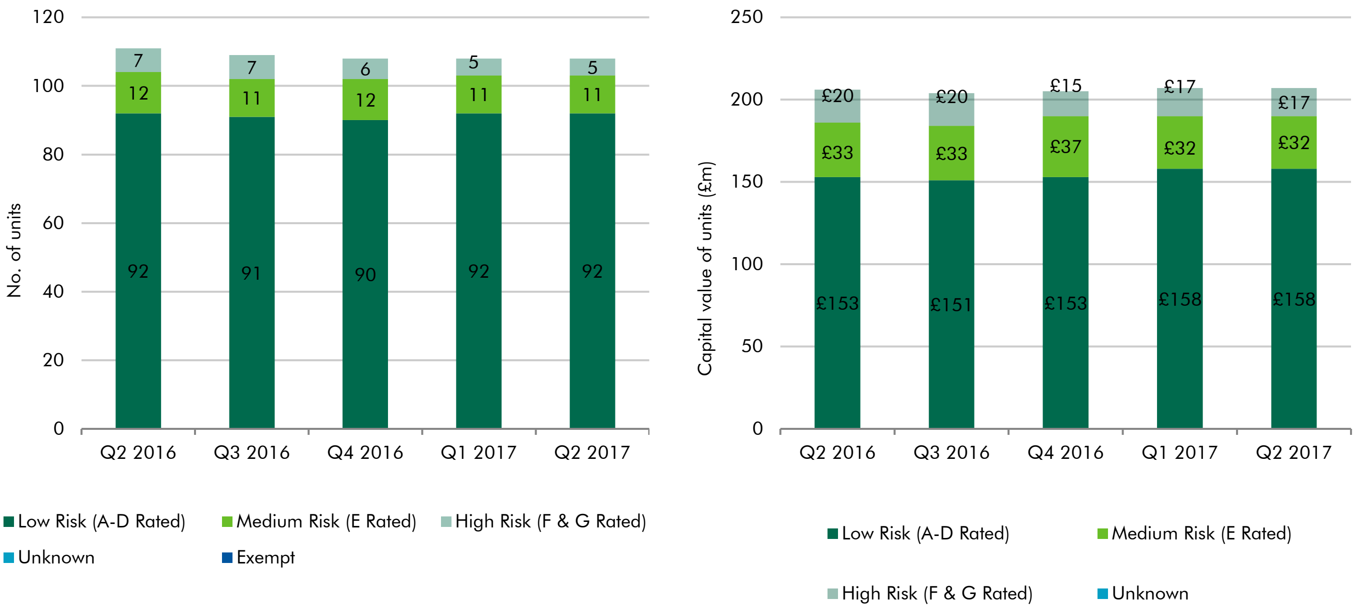


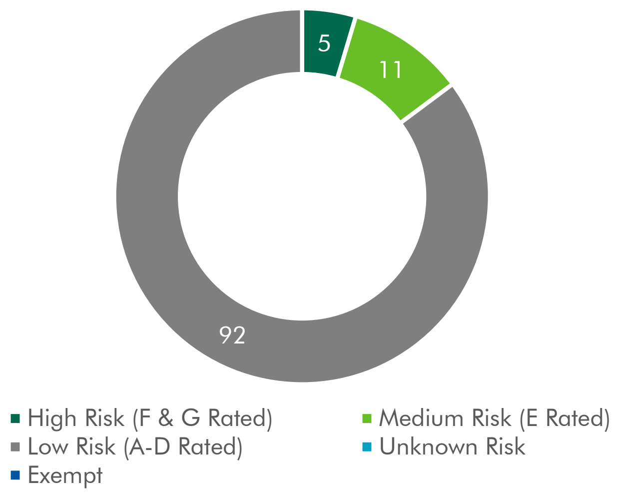
Figure 15: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q1.

COMPLETED PROJECTS: Q2 2017

Size	Unit	Action	Outcome
All	All	Green Lease Clauses	The green lease clauses have been refined and amended as per comments from solicitors on all funds.
All	All	Tenant engagement	Identified priority sites and tenants to engage with over the next 6 months to increase energy efficiency in the selected properties.
Apsley Way Industrial Estate, London NW2	Unit B	Modelled EPC ordered	A modelled EPC has been ordered for this unit. Awaiting the results.
75-81 Sumner Road, Croydon	Unit 4	Modelled EPC ordered	A modelled EPC has been ordered for this unit. Awaiting the results.

ACTIONS FOR MITIGATING RISK ACROSS THE PORTFOLIO

Figure 16 Strategy For Risk Mitigation For Remaining Medium And High Risk Units



Action plan for Medium / High Risk units	Number of units
Carry out high quality EPC	2
Scottish properties	2
Tenant engagement	1
Monitor – potential sale	0
Consult on current works	2

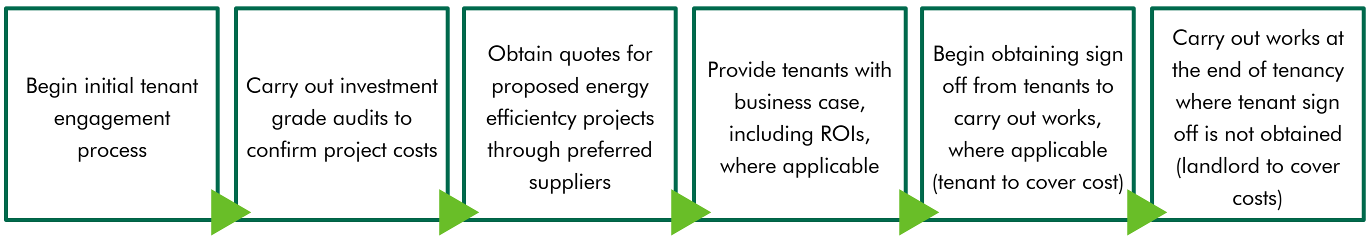
Figure 16 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.

RISK MITIGATION PROCESS

Where possible, tenants will be engaged to help spread the cost of investment and mitigate risk.

Figure 17 illustrates the process that will be undertaken throughout the year to engage with tenants.

Figure 17 Process For Carrying Out Risk Mitigation Actions



PLANNED PROJECTS: Q3 2017

Size	Unit	Action	Outcome
South Bristol Trade Park	Unit 3B	Modelled EPC	Modelled EPC to provide improvement measures in order to move the unit into medium/low risk category.
Dunbeath Court, Swindon	All	Tenant Engagement	Electronic version of tailored pamphlet distributed to key tenants. Work with tenants and property managers to implement energy efficiency projects to improve EPC rating.
Sumner Road, Croydon	All	Tenant Engagement	Engagement with retail tenants for possible upgrades to lighting systems. Identify payback periods and financial structure for each tenant. Measures will affect the energy efficiency of the assets and improve EPC rating.
Cathedral Retail Park, Norwich	All	Tenant Engagement	Engagement with retail tenants for possible upgrades to lighting systems. Identify payback periods and financial structure for each tenant. Measures will affect the energy efficiency of the assets and improve EPC rating.

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APPENDIX 1

SCHEDULE OF VACANCIES

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Great Suffolk Street, London	8,000	2.1%	£197,500	To be sold
1st and 2nd floor, Pilgrim House, Aberdeen	13,805	1.9%	£276,100	Marketing
Unit 7, Phoenix Park, Staples Corner, London	5,131	0.5%	£69,300	Under Offer
TOTAL PORTFOLIO VOID		4.5%	£642,900	

APPENDIX 2

INDIRECT PORTFOLIO

PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds and as at 30 June 2017 had a value of £24.2 million.

The performance of the Dorset indirect portfolio was 0.4% over the last quarter and 0.5% over the last 12 months. This return is based on May 2017 prices. The table below reflects the valuations based on these reporting cut-off dates.

Fund Name	Manager	Sector	LTV	Value (£m)
CBRE Retail Property Fund Britannica Unit Trust	CBRE Global Investors	Shopping Centres	-	-
Lend Lease Retail Partnership	Lend Lease	Shopping Centres	-	9.651
Standard Life UK Shopping Centre Trust	Standard Life	Shopping Centres	-	14.587
Total			**-**	**24.238**

INVESTMENT ACTIVITY

There was no transactional activity during the quarter.

COMMENTARY

The Dorset indirect property portfolio has three indirect holdings, although the holding in CBRE Retail Property Fund Britannica Unit Trust has no value and is in wind down. These are specialist funds that provide the portfolio with exposure to the shopping centre sector. The combined indirect investments have a value of £24.2 million and nil look-through exposure to gearing.

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership produced a total return of 0.6% over the quarter and -0.4% over the year.

During the quarter a valuation uplift at Bluewater Shopping Centre, Kent was offset by a fall in value at Touchwood, Solihull with the fund's NAV remaining flat. Therefore the total return over the quarter was driven by income.

The valuation of Bluewater Shopping Centre, increased by 2.0% as a result of an inward yield shift. The valuation of Touchwood Shopping Centre, Solihull decreased by 1.5% as a result of a 10 bps outward yield shift as leases for a number of key tenants, such as Apple and Zara, are now on a rollover basis. Both of the aforementioned tenants are due to relocate within the scheme during the second half of 2017 in accordance with their strategy to 'right size' their units, which will reflect an upsizing of their space representation at Touchwood.

During the quarter, the manager continued with asset management initiatives at the two schemes:
At Bluewater, the manager completed/ exchanged on four new lettings, one lease renewal and six rent reviews. There was also an increase in income from commercialization and further progress was made at the Plaza development with additional cinema and restaurants proposed, extending the food village offering at the asset.

At Touchwood one lease renewal was concluded and two vacancies at the asset are being dealt by solicitors. New business rates on the car park were reflected in valuations reducing the net rent during the quarter.

The manager is pursuing an early wind-down with the fund's 25% interest in Bluewater Shopping Centre put on the market for sale, ahead of the formal commencement fund wind-down of November 2017. This is being marketed in conjunction with GIC's 17.5% interest in the asset. We expect progress to be made before end of 2017.

The manager is also considering sale options for Touchwood in which the fund holds a 100% interest.

STANDARD LIFE UK SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 0.5% over the quarter and 1.3% over the last 12 months.

Over the quarter, the return was driven by income performance. At quarter end, the trust had a net asset value of £1.6 billion with the portfolio providing exposure to six shopping centres across the UK (following the sale of One Stop, Perry Barr at the end of 2016). The fund remains ungeared and the portfolio has a weighted average unexpired lease term of 7.9 years.

As at quarter end, the void rate increased to 4.7% (by ERV) however this would fall to c2.8% taking into account the impact of the signed agreement for lease with Zara who are taking the former BHS unit in Brighton. The Zara unit has received strong interest from three occupiers and it is anticipated that the letting of this unit will complete imminently.

At Centre Court, Wimbledon a lease renewal has been agreed with Boots and a new lease has been agreed with Smith Florist which has improved income. Fund Income across the portfolio is diversified with no tenant paying more than 4% of the Trust's total passing rent. At Brent South Retail Park, positive rent reviews were settled on two units with Sofa Workshop and Designer Living; this has led to ERV increases across two units occupied by Next.

There were no acquisitions or sales over the quarter however the strategy is to dispose of weaker, generally smaller assets that are likely to underperform and Palace Gardens, Enfield has been shortlisted, subject to sales advice. Regarding development opportunities, the fund is looking to retain a long-term exposure to both Brent Cross and Brighton (where development is planned), and participate in the development of both assets. The Fund has an available cash balance of circa £87.7m which is being held for capital expenditure and other working capital required to deliver asset management initiatives across the portfolio.

At Brent Cross, the more active of the two assets with development / extension proposals, the Waitrose lease has been re-geared and Zara has taken an agreement for lease on the former Gap unit. During Q2, four other leases were completed at the centre, two were above ERV. The Manager is in discussions with a number of capital sources interested in funding the extension to Brent Cross. Further engagement with unitholders is due to commence during August 2017, when more details on the transaction will be made available.

APPENDIX 3

PORTFOLIO VALUATION

Valuation Schedule (UK Property)
Q2 2017

Property Address	June 2017	Qtr Total Return [1]	Annual Income	OMRV	Net Initial Yield [2]
OFFICES					
Aberdeen, Pilgrim House	£6,000,000.00	-14.7%	£318,862.00	£517,414.00	5.0%
Cambridge, The Eastings	£3,500,000.00	1.4%	£190,500.00	£226,000.00	5.1%
Cambridge, 270 Science Park	£12,200,000.00	4.4%	£266,616.00	£1,070,616.00	2.1%
London EC1, 83 Clerkenwell Rd	£17,650,000.00	1.2%	£836,000.00	£1,034,000.00	4.4%
London N1, 15 Ebenezer St & 25 Provost St	£8,725,000.00	1.8%	£304,175.00	£712,700.00	3.3%
Watford, Clarendon Road	£15,250,000.00	1.8%	£902,750.00	£1,189,000.00	5.6%
TOTAL OFFICES	**£63,325,000.00**	**0.2%**	**£2,818,903.00**	**£4,749,730.00**	**4.2%**
RETAIL WAREHOUSE					
Northampton, Becket Retail Park	£6,300,000.00	3.4%	£431,000.00	£429,700.00	6.4%
Norwich, Cathedral Retail Park	£16,100,000.00	1.7%	£1,074,000.00	£1,054,000.00	6.3%
Rayleigh, Rayleigh Road	£3,625,000.00	5.2%	£222,783.00	£222,783.00	5.8%
TOTAL RETAIL WAREHOUSE	**£26,025,000.00**	**2.5%**	**£1,727,783.00**	**£1,706,483.00**	**6.2%**
SUPERMARKET					
Tesco, Sheffield	£10,600,000.00	1.6%	£680,000.00	£680,000.00	6.0%
TOTAL SUPERMARKET	**£10,600,000.00**	**1.6%**	**£680,000.00**	**£680,000.00**	**6.0%**
INDUSTRIAL					
Bristol, South Bristol Trade Park	£4,850,000.00	7.7%	£258,106.00	£294,335.00	5.0%
Crawley, Woolborough IE	£21,000,000.00	11.7%	£917,962.00	£1,262,200.00	4.1%
Croydon, 75/81, Sumner Road	£3,125,000.00	7.3%	£137,000.00	£169,800.00	4.1%
Heathrow, Skylink	£5,000,000.00	9.3%	£125,478.00	£256,300.00	2.4%
London, Phoenix Park, Apsley Way	£11,850,000.00	7.1%	£487,469.00	£620,813.00	3.9%
London, Apsley Centre	£3,850,000.00	11.2%	£165,900.00	£202,400.00	4.1%
London, 131 Great Suffolk St	£5,250,000.00	20.6%	£0.00	£297,500.00	0.0%
Sunbury, Windmill Road	£11,250,000.00	3.8%	£659,750.00	£735,650.00	5.5%
Swindon, Dunbeath Court	£5,000,000.00	5.9%	£333,716.00	£339,800.00	6.3%
Swindon, Euroway IE	£12,250,000.00	3.4%	£803,422.00	£817,935.00	6.2%
TOTAL INDUSTRIAL	**£83,425,000.00**	**8.2%**	**£3,888,803.00**	**£4,996,733.00**	**4.4%**
OTHER					
Derwent Shared Ownership	£10,280,000.00	8.9%	£382,837.00	£382,837.00	3.7%
Glasgow, Mercedes	£10,500,000.00	1.4%	£597,453.00	£566,600.00	5.4%
Leeds, The Calls	£7,450,000.00	1.6%	£480,644.00	£487,950.00	6.1%
Macclesfield, Hope Park	£6,350,000.00	0.9%	£236,964.00	£236,964.00	3.5%
Newcastle, Charlotte House	£4,200,000.00	-10.1%	£115,178.00	£304,800.00	5.6%
TOTAL OTHER	**£38,780,000.00**	**1.9%**	**£1,813,076.00**	**£1,979,151.00**	**4.4%**
TOTAL DIRECT PROPERTY	**£222,155,000.00**	**3.5%**	**£10,928,565.00**	**£14,112,097.00**	**5.0%**
INDIRECT PROPERTY					
Lend Lease Retail Partnership	£9,650,760.00	0.6%	£320,984.00		
Standard Life Investments UK Shopping Centre Trust	£14,587,107.65	0.3%	£545,272.00		
TOTAL INDIRECT PROPERTY	**£24,237,867.65**	**0.4%**	**£866,256.00**		
GRAND TOTAL	**£246,392,867.65**	**3.4%**	**£11,794,821.00**	**£14,112,097.00**	**5.0%**

Notes:

1. Total returns for both the direct and indirect properties for the quarter to June 2017 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to June 2017 as reported by CBRE Global Investors (UK Funds) Ltd (CBREGIF) / CBRE Global Investors in respect of the indirect portfolio.
2. Net Initial Yields as reported by BNP Paribas and Allsop LLP (Independent Valuers for the Fund) in respect of the direct portfolio. Net Initial Yields as reported by CBRE Global Investors in respect of the indirect portfolio.
3. Valuation figures provided by CBRE Global Investors (UK Funds) Ltd (CBREGIF) are the June 2017 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.

APPENDIX 4

AFFILIATED SERVICES

Property	Fee	Service
Aberdeen, Pilgrim House	£500.00	Rates
Crawly, Woolborough Lane Industrial Estate	£3,142.35	Rates
Portfolio	£1,850.00	ESG – Q3 2016
Q2 2017 Total	**£5,429.35**	